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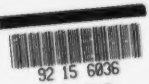

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

M 92-2259

For the quarterly period ended March 31, 1992

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

PROCESSED BY
25-25 H
MAY 21 1992

For the transition period from _____ to _____.

Commission file number 1-10717

E-Z SERVE CORPORATION
(Exact name of registrant as specified in its charter)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Delaware (State or other jurisdiction of incorporation or organization)	**75-2168773** (I.R.S. Employer Identification No.)
10700 Interstate 45 North, Houston, TX (Address of principal executive offices)	**77037-1187** (Zip Code)

Registrant's telephone number, including area code (713) 591-1111

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Class of Common Stock	Outstanding at May 13, 1991
$0.01 par value	**9,609,234**

BEST COPY AVAILABLE

E-Z SERVE CORPORATION
INDEX TO QUARTERLY REPORT
MARCH 31, 1992 AND 1991

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

E-Z SERVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Thousands of dollars)

ASSETS	March 31, 1992	December 31, 1991
Current assets:		
Cash and temporary investments	$4,924	$4,142
Accounts receivable, net of allowance for doubtful accounts	6,709	3,811
Notes receivable	992	884
Inventory	9,787	6,248
Securities of related party (Notes 3, 7)	742	4,687
Prepaid expenses and other current assets	1,036	925
Total current assets	24,190	20,697
Property and equipment, net of accumulated depreciation and impairment provision	45,258	38,197
Securities of related party (Note 7)	5,008	5,008
Excess of cost over net assets acquired	10,017	10,144
Other assets	2,053	2,142
	$86,526	$76,188

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts and notes payable	$12,007	$6,421
Accrued liabilities and other current liabilities	6,735	5,502
Current portion of long-term debt	1,384	3,175
Total current liabilities	20,126	15,098
Long-term debt payable to bank, net of current portion (Note 3)	28,263	27,669
Long-term debt payable to related parties, including interest (Note 3)	4,965	4,842
Long-term obligations under capital leases (Note 3)	2,030	24
Long-term debt - other, net of current portion (Note 3)	578	595
Other liabilities, net of current portion	1,630	1,905
Commitments and contingencies (Note 4)		
Stockholders' equity: (Notes 5, 7, 8)		
Preferred stock, $0.01 par value Series A; 100,000 shares authorized, 0 shares and 63,962 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively. Series B; 25,000 shares authorized, 25,000 and 0 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively. Series C; 200,000 shares authorized, 66,924 shares and 0 shares issued and outstanding at March 31, 1992 and December 31, 1991, respectively.	1	1
Common stock, $0.01 par value; 100,000,000 shares authorized, 9,984,234 and 8,384,234 shares issued at March 31, 1992 and December 31, 1991, respectively.	100	84
Additional paid-in capital	94,030	88,210
Accumulated deficit	(63,033)	(60,076)
Treasury stock, 375,000 shares, at cost	(2,164)	(2,164)
Total stockholders' equity	28,934	26,055
	$86,526	$76,188

The accompanying Notes to Consolidated Financial Statements

E-Z SERVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Thousands of dollars except per share amounts)

	Three Months Ended March 31,	
	1992	1991
Revenues:		
Motor fuels - retail	$46,908	$49,711
Motor fuels - wholesale	-	1,732
Convenience store merchandise	7,521	5,253
Gain (loss) on disposal of assets	(6)	4,832
Interest and other income	470	529
	54,893	62,057
Costs and expenses:		
Cost of sales:		
Motor fuels - retail	41,977	44,682
Motor fuels - wholesale	-	1,491
Convenience store merchandise	5,035	3,828
Other costs	48	-
Operating expenses	5,509	5,588
Selling, general and administrative expenses	2,758	2,540
Depreciation and amortization	1,322	1,392
Interest expense	818	2,038
	57,467	61,559
Income (loss) before income taxes	(2,574)	498
Income tax expense	87	169
Income (loss) before extraordinary item	(2,661)	329
Extraordinary item - reduction in income taxes resulting from utilization of net operating loss carryforwards	-	169
Net income (loss)	($2,661)	$498
Income (loss) Attributable to Common Stock:		
Net loss	($2,661)	$498
Preferred stock dividends	(96)	-
Income (loss) Attributable to Common Stock	($2,757)	$498
Income (loss) before extraordinary item	($0.34)	$0.15
Extraordinary item	-	0.08
Net income (loss)	($0.34)	$0.23
Weighted average shares outstanding	8,114,729	2,127,013

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

E-Z SERVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(Thousands of dollars)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balance, December 31, 1990	-	$14	$45,480	($40,591)	-	$4,903
Issuance of common stock for parent company preferred stock	-	9	4,999	-	-	5,008
Issuance of preferred stock	$1	-	6,395	-	-	6,396
Repurchase treasury common stock	-	-	-	-	($2,164)	(2,164)
Issuance of common stock at rights offering	-	61	34,904	-	-	34,965
Net cost of rights offering	-	-	(2,232)	-	-	(2,232)
Adjustment of capital contribution	-	-	(1,336)	-	-	(1,336)
Net loss	-	-	-	(19,485)	-	(19,485)
Balance, December 31, 1991	1	84	88,210	(60,076)	(2,164)	26,055
Exchange of Series A Preferred	(1)	-	(6,395)	-	-	(6,396)
Issuance of Series B Preferred	-	-	2,500	-	-	2,500
Issuance of Series C Preferred	1	-	6,395	-	-	6,396
Issuance of restricted common for purchase of companies	-	16	3,024	-	-	3,040
Series A Preferred stock dividend	-	-	256	(296)	-	-
Net loss	-	-	-	(2,661)	-	(2,661)
Balance, March 31, 1992	$1	$100	$94,030	($63,033)	($2,164)	$28,934

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

E-Z SERVE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Thousands of dollars)

	Three Months Ended March 31,	
	1992	1991
Cash flows from operating activities:		
Net income (loss)	($2,661)	$498
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,322	1,392
Payments for environmental matters	(350)	(240)
Provision for doubtful accounts	-	13
Gain on sales of assets	-	(4,832)
Interest on related party debt	123	-
Change in assets and liabilities:		
Decrease (increase) in accounts and notes receivable	(840)	2,762
Decrease (increase) in inventory	(349)	1,109
Decrease in prepaid expenses and other	360	69
Increase (decrease) in trade payables and accruals	432	(1,417)
Other - Net	(64)	240
Net cash used in operating activities	(2,027)	(406)
Cash flows from investing activities:		
Proceeds from sale of assets	323	262
Payment for purchase of companies, net of cash acquired	(579)	
Capital expenditures	(108)	(463)
Sale of securities of related party	3,945	-
Proceeds from note receivable related to the sale of subsidiary	-	5,000
Net cash provided by investing activities	3,581	4,799
Cash flows from financing activities:		
Issuance of preferred stock	2,500	-
Debt repayments net of increase in borrowings	(3,272)	(6,628)
Advances from related party	-	1,917
Net cash provided by financing activities	(772)	(4,711)
Net increase (decrease) in cash and temporary investments	782	(318)
Cash and temporary investments at beginning of period	4,142	2,741
Cash and temporary investments at end of period	$4,924	$2,423
Noncash effect of:		
Purchase of securities of related party	-	$5,008
Issuance of common stock	($3,040)	(5,008)
Purchase of Taylor Companies	3,040	-
Incurrance of obligations under capital leases	(2,068)	-
Addition of capital lease assets	2,068	-
	-	-
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$1,783	$17
Income taxes	$38	-

The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.

E-Z SERVE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1992
(Unaudited)

(1) MANAGEMENT'S REPRESENTATIONS

In the opinion of the management of E-Z Serve Corporation and its wholly-owned subsidiaries (the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 1992 and December 31, 1991 and the results of its operations and its cash flows for all periods presented.

The accompanying unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to these rules and regulations, although the Company believes that the disclosures made are adequate to ensure the information presented is not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission on April 1, 1992.

Certain items in the March 31, 1991 financial statements have been restated to conform with presentations in the March 31, 1992 financial statements.

The results of operations for the three month period ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reference is made to the Notes to Consolidated Financial Statements which appear in the Company's Form 10-K for the year ended December 31, 1991.

E-Z SERVE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1992
(Unaudited)

(3) LONG-TERM DEBT AND CREDIT ARRANGEMENTS

	March 31, 1992	December 31, 1991
	(Thousands of Dollars)	
Long-term debt payable to bank consists of the following:		
Notes payable to bank under revolving lines of credit	-	11,596
Term notes payable to bank	29,513	19,173
	29,513	30,769
Less: current portion	1,250	3,100
	28,263	27,669
Long-term debt payable to related parties, including accrued but unpaid interest, consists of the following:		
Notes payable to major stockholders	1,510	1,481
Subordinated debenture payable to Harken	3,455	3,361
	4,965	4,842
Long-term obligations under capital leases consists of the following:		
Long-term lease obligations	2,100	36
Less: current portion	70	12
	2,030	24
Long-term debt - other consists of the following:		
Long-term debt - other	642	658
Less: current portion	64	63
	578	595

E-Z SERVE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1992
(Unaudited)

(1) MANAGEMENT'S REPRESENTATIONS

In the opinion of the management of E-Z Serve Corporation and its wholly-owned subsidiaries (the Company), the accompanying unaudited consolidated condensed financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 1992 and December 31, 1991 and the results of its operations and its cash flows for all periods presented.

The accompanying unaudited consolidated condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to these rules and regulations, although the Company believes that the disclosures made are adequate to ensure the information presented is not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K filed with the Securities and Exchange Commission on April 1, 1992.

Certain items in the March 31, 1991 financial statements have been restated to conform with presentations in the March 31, 1992 financial statements.

The results of operations for the three month period ended March 31, 1992 are not necessarily indicative of the results to be expected for the full year.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reference is made to the Notes to Consolidated Financial Statements which appear in the Company's Form 10-K for the year ended December 31, 1991.

Pursuant to a Restated Loan Agreement (Loan Agreement) dated August 15, 1990, as amended, the Company had a credit facility with a bank consisting of, at December 31, 1991, a $20,000,000 revolving line of credit (Revolver) and term debt with a balance of $19,173,000. On March 25, 1992, the Fourth Amendment and Supplement to the Restated Loan Agreement and the Fifth Amendment and Supplement to the Restated Loan Agreement reduced the Revolver commitment to $16,000,000, converted it to a term loan ($16,000,000 Term Loan) and extended the maturity to June 30, 1994. Drawdowns under the $16,000,000 Term Loan are limited by a borrowing base calculation, and funds not drawn are invested, on a short-term basis, with the bank. Further, the $16,000,000 Term Loan has no scheduled principal payments and bears interest at the prime rate plus 1½%, payable quarterly. The original term debt was composed of two loans (Term Loan A and Term Loan B). At December 31, 1991, Term Loan A had a balance of $4,173,000 and Term Loan B had a balance of $15,000,000. During the first quarter of 1992, Term Loan A was repaid in full and Term Loan B was paid down to $14,250,000 as described below. Term Loan B bears interest, payable quarterly, at the prime rate plus 1½%, the 30, 60 or 90 day LIBOR rate plus 3%, or the 30, 60 or 90 day CD rate plus 3% as determined by the Company.

In accordance with the Third Amendment and Supplement to the Restated Loan Agreement (Third Amendment), the payment schedule and maturity of Term Loan B have been extended to allow the Company, under certain circumstances described below, to apply the net proceeds from the sale of assets to the prepayment of future quarters' interest and principal payment requirements, to a maximum of four quarters. Term Loan B requires quarterly principal payments of $250,000 through December 31, 1992, $500,000 from March 31, 1993 through March 31, 1994, with the balance due June 30, 1994. Net proceeds received from the sale of assets may also, under certain circumstances described below, further reduce the principal balance of Term Loan B.

The Third Amendment provides that, after repayment of the February 14, 1992 promissory notes payable to two major stockholders (see below), the net proceeds from the sale of assets be applied first to the payment of current or past due interest owing on Term Loan B; second, up to $1,300,000 ($879,000 remaining at March 31, 1992) may be retained by the Company for working capital purposes; third, up to twelve months interest and principal may be deposited into a special Interest/Principal Reserve Account at the bank to apply against future commitments; fourth, to the payment of current or past due installments of principal due on Term Loan B; fifth, to the reduction of principal payments on Term Loan B in the inverse order of their maturity; and sixth, to pay current or past due interest and then principal on the $16,000,000 Term Loan.

The Third Amendment further provides that any "Excess Cash Flow" from operations, as defined, shall be payable to the bank quarterly, 45 days after the end of each calendar quarter, commencing August 14, 1991. This "Excess Cash Flow", if any, will be applied to principal payments on Term Note B in the inverse order of maturity. The Loan Agreement grants the bank, among other things, a first security interest in all components of working capital and liens on substantially all real estate, equipment and security investments of the Company. Provisions of the Loan Agreement require the Company to maintain specified minimum levels of working capital, net worth, cash flow and debt to tangible net worth ratios, as defined. The Loan Agreement also imposes various restrictions as to distributions, future contractual obligations, future liens on assets and future lease obligations.

The bank holds a guaranty from Harken Energy Corporation (Harken), limited to $4,750,000 of the principal balance of Term Loan B as of March 31, 1992, plus accrued and unpaid interest on such amount, and expenses reasonably incurred by the bank to collect such amount. The guaranty is reduced by one-third of any principal reduction on Term Loan B, and will be released when Term Loan B is paid in full or at such time as the Company demonstrates the ability from historical cash flow, for four consecutive quarters, to amortize Term Loan B in accordance with a ten-year amortization. On June 28, 1991, the Company issued to Harken a 12% Contingent Secured Subordinated Debenture that shall be deemed issued in the event Harken's guaranty is called upon by the bank. This debenture, if issued, would be secured by a second lien on the 513,240 shares of Harken's Series C Cumulative Convertible Preferred Stock, $1.00 par value (Harken Series C Preferred) held by the Company. (See Note 7 - Related Party Transactions.)

Through a contribution of capital and issuance of a Subordinated Debenture (see below), the Company received 3,980,100 restricted shares of Harken common stock. In 1991, the Company sold, through a private placement, 1,967,811 shares of the Harken common stock, and the net proceeds from this sale of $5,313,000, or $2.70 per share, were applied either against Term Loan A, the Revolver, or placed into a reserve account to prepay future interest and principal payment requirements. Pursuant to a demand registration request made by the Company on September 16, 1991, a registration statement was filed by Harken and became effective on January 24, 1992 for a period of 180 days, allowing the Company to sell its remaining 2,012,289 shares in the public market. As of March 31, 1992, the Company had sold 1,429,200 additional shares of Harken common stock for net proceeds of $3,945,000, or an average of $2.76 per share, which, together with the balance in the reserve account discussed above, were used to pay off Term Loan A in full. The remainder of the

proceeds, and the final proceeds received from the sale of the Company's Hawaiian subsidiary were applied to current interest payment requirements or were placed into the reserve account to prepay future principal and interest requirements on Term Loan B. At March 31, 1992, the Company had sufficient funds in the reserve account to prepay scheduled principal and estimated interest payments on Term Loan B through at least September 30, 1992. The Company intends to sell its remaining 583,089 shares of Harken common stock, which have a basis of $742,000 or $1.27 per share. For financial reporting purposes, the difference between the proceeds received from the sale of the remaining stock and the carrying value of such stock will be reflected as an adjustment to paid-in capital. At March 31, 1992, the closing sales price of Harken common stock, as reported by the American Stock Exchange, was $2.75 per share.

The Company plans to further reduce bank debt utilizing proceeds from the sale of its remaining shares of Harken common stock, unused land and pipelines, and certain other retail marketing properties which it believes provide no significant future growth potential, or which do not fit into its overall strategic plan of marketing in non-urban areas. In this regard, the Company is involved in ongoing discussions with prospective third-party purchasers.

On May 3, 1991, the Company issued notes to two major stockholders in the aggregate amount of $1,387,000. The notes bear interest at 2% over the prime rate payable at maturity, and, pursuant to an agreement dated March 25, 1992, the maturity date was extended to June 30, 1994, and, further, upon the closing of a $6,000,000 equity financing by the Company on or prior to December 31, 1993 (Equity Financing), the maturity date would be further extended to June 30, 1995 and the interest rate on the notes would be reduced to the lesser of 12% or the prime rate plus 1%. The balance of the notes and accrued but unpaid interest at March 31, 1992 was $1,510,000.

On June 28, 1991, the Company issued to Harken an Amended and Restated 12% Secured Subordinated Debenture (Subordinated Debenture) in the principal amount of $3,136,000. The Subordinated Debenture, which is subordinated to all indebtedness held by the bank, and to the Series B Preferred Stock (see Note 5 - Stockholders' Equity), is payable in its entirety on June 30, 1994. However, pursuant to an agreement dated March 25, 1992, Harken agreed that, at the time of an Equity Financing, it would extend the maturity date to June 30, 1995 and base the interest payment on the lesser of 12% or the prime rate plus 1%. Interest is payable quarterly commencing September 30, 1991, subject to the prior approval of the bank; such approval was not granted for the 1991 and the first quarter 1992 interest payments in the aggregate

amount of $319,000, and such payments were not made. All accrued and unpaid interest is due and payable upon maturity without prior approval of the bank. Provisions of the Subordinated Debenture require the Company to complete certain sales of assets within defined periods and restrict the Company's ability to enter into certain defined business transactions without the approval of Harken. The Company was in breach of the Subordinated Debenture's provision which required it to have sold $4,000,000 worth of assets by March 31, 1992. As of that date, the Company had sold $3,700,000 of assets and received a waiver from Harken. Without the waiver, Harken had the right to approve all expenses (other than certain defined excluded expenses) made by the Company until such time as the Company was no longer in default. The Subordinated Debenture is guaranteed by each of the Company's subsidiaries and is further secured by a second lien on the 513,240 shares of Harken Series C Preferred that are held by the Company.

On February 14, 1992, the Company received a cash advance from two major stockholders to cover working capital deficiencies. In exchange for the advance the Company issued to these stockholders two promissory notes in the aggregate amount of $1,000,000. The notes mature August 1, 1992 and bear interest at the prime rate plus 1½%, payable at maturity. Pursuant to provisions contained in the Loan Agreement, these notes are to be repaid from the first proceeds of any asset sales made by the Company. At March 31, 1992, $89,975 of net proceeds had been applied to pay down the notes.

(4) COMMITMENTS AND CONTINGENCIES

The Environmental Protection Agency issued regulations in 1988 that established requirements for underground storage tanks that will affect various aspects of the Company's retail gasoline operations. The regulations require assurances of insurance or financial responsibility and will require the Company to upgrade or replace a certain number of its underground storage tanks. The Company currently estimates that it will spend an additional $12,417,000 to comply with the new regulations. The $12,417,000 consists of a $4,605,000 reserve for anticipated remediation costs; $3,500,000 for environmental capital improvements; $2,364,000 for tank removal costs; and $2,047,000 for routine tank testing. Such estimate is based on current regulations, historical results, assumptions as to the number of tanks to be replaced and certain other factors. The assumptions on which the above cost estimate is based may not materialize, and unanticipated events and circumstances may occur. As a result, the actual cost of complying with these requirements may be substantially lower or higher than the

estimated costs, and could have a material adverse effect on the Company's financial condition.

The Company and its subsidiaries are involved in various lawsuits incident to its businesses, including environmental matters which involve a governmental authority. In management's opinion, the adverse determination against the Company or any of its subsidiaries of any environmental suits would not have a material adverse effect on the Company and its subsidiaries, taken as a whole. In the case of environmental proceedings involving governmental authorities, management does not believe that any imposition of monetary sanctions would exceed $100,000.

(5) STOCKHOLDERS' EQUITY

At December 31, 1991, the Company had issued 63,962 shares of its $6.00 Convertible Preferred Stock, Series A (Series A Preferred Stock) to Harken for $100 per share. On March 25, 1992, Harken exchanged with the Company all of the shares of Series A Preferred Stock owned by it for 66,924 shares of Series C Preferred Stock, including 2,962 shares representing accrued but unpaid dividends. The rights and preferences of the Series C Preferred Stock are identical to those of the Series A Preferred Stock, except that the Series C Preferred Stock is junior as to dividends and distributions in the event of liquidation to the Company's Series B Preferred Stock. The shares of common stock issuable upon conversion of the Series C Preferred Stock were also granted demand and piggyback registration rights. At the option of the Company, and subject to certain limitations, each share of the Series C Preferred Stock is convertible into 17.33 fully paid and non-assessable shares of the Company's common stock, and is redeemable at the option of the Company at $100 per share. Cumulative dividends of $6.00 per share are payable, when and as declared, semi-annually on April 1 and October 1 of each year, in cash or additional Series C Preferred Stock, at the option of the holders of at least two-thirds of the shares of Series C Preferred Stock then outstanding, by written notice to the Company's Board of Directors, at least 60 days prior to the date at which the dividend is payable. The Company plans to retire the Series A Preferred Stock.

In connection with the acquisition of Taylor Petroleum on March 25, 1992, the Company issued 25,000 shares of its Series B Convertible Preferred Stock for $100 per share (Series B Preferred Stock) :o two major stockholders. At the option of the holder, each share of Series B Preferred Stock is convertible into the number of shares of the Company's common stock obtained by dividing the conversion value of each

share, as defined, by the conversion price, as defined and in effect at the time of the conversion. Each share is currently convertible into 52.63 shares of common stock. Further, a forced conversion can occur in certain circumstances upon the closing by the Company of an underwritten public offering of common stock of the Company at a price per share of not less than $3.00 and in which the cash proceeds to the Company are not less than $6,000,000, or at such time as the Company's common stock trades at a closing price greater than $4.00 per share for 30 consecutive trading days. The Series B Preferred Stock is entitled to receive cumulative annual dividends at the rate of $8.00 per share. In liquidation, the Series B Preferred Stock is entitled to receive $100 per share and is senior to any distribution of assets to the holders of any other series of preferred stock or common stock. Holders of the Series B Preferred Stock have been granted demand and piggyback registration rights with respect to the shares of common stock issuable upon conversion of the Series B Preferred Stock. In accordance with the terms of the Series B Preferred Stock Certificate of Designation, the Company must obtain the consent of not less than 66⅔% of the Series B Preferred Stock holders in order to issue senior equity securities, reserve additional shares of the Company's common stock for distribution to employees and certain other equity matters.

(6) PER SHARE DATA

Per share data has been computed based on the weighted average number of common shares outstanding during the periods presented. Primary and fully diluted earnings per share are not presented as inclusion of common stock equivalents would be anti-dilutive.

(7) RELATED PARTY TRANSACTIONS

Relationship with Harken - On April 29, 1991, the Company completed a common stock rights offering which established separate ownership for the Company from its former parent, Harken. Ongoing relationships with Harken consist only of the following:

At March 31, 1992, the Company held 583,089 shares of Harken common stock, valued at $742,000 (See Note 3 - Long-Term Debt and Credit Arrangements);

At March 31, 1992, the Company held 513,240 shares of Harken Series C Preferred, valued at $5,008,000 (See Note 3 - Long-Term Debt and Credit Arrangements);

At March 31, 1992, Harken held 580,875 shares of the Company's common stock;

At March 31, 1992, Harken held 66,924 shares of the Company's Series C Preferred Stock (See Note 5 - Stockholders' Equity);

At March 31, 1992, Harken held the Company's Subordinated Debenture with an outstanding balance, including accrued but unpaid interest, of $3,455,000 (See Note 3 - Long-Term Debt and Credit Arrangements);

Harken has outstanding guaranties on the Company's behalf related to the Company's bank debt (see Note 3 - Long-Term Debt and Credit Arrangements), certain office and station lease commitments, and certain debt related to a subsidiary acquisition.

See Note 3 - Long-Term Debt and Credit Arrangements and Note 5 - Stockholders' Equity for additional related party transactions.

(8) ACQUISITION OF TAYLOR PETROLEUM

On March 25, 1992, the Company acquired Taylor Petroleum, Inc. (Taylor) and Titan Energy, Inc. (Titan), both of Amarillo, Texas (the Taylor Companies). Taylor operates 113 convenience stores, mini marts and gas marts in Texas, Oklahoma, Kansas, Missouri, Arkansas and New Mexico, all of which sell gasoline. Titan operates a fleet of 11 refined product transports. Under the terms of the deal, the Company acquired all of the outstanding stock of both Taylor and Titan for $800,000 cash, $2,000,000 in debt assumption, which was paid down fully at closing, and 1,600,000 restricted shares of the Company's common stock. The Company financed the cash portion of the transaction by privately placing $2,500,000 of Series B Convertible Preferred Stock to two major stockholders and from available working capital. (See Note 5 - Stockholders' Equity.)

The Consolidated Balance Sheets presented herein include all of the accounts of the Taylor Companies; the Consolidated Statements of Operations include results of the Taylor Companies for the period March 1 through March 31, 1992.

E-Z SERVE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1992
(Unaudited)

Below is the Consolidated Statement of Operations of the Company for the year ended December 31, 1991, and the Pro Forma Consolidated Statement of Operations for the same period, presented as though the Taylor Companies were included with the Company's operations for the full year:

	Year Ended December 31, 1991	
	(as reported)	(pro forma)
	(Thousands of Dollars)	
Revenues:		
Motor fuels - retail	$198,806	$258,597
Motor fuels - wholesale	3,270	3,270
Convenience store merchandise	22,182	47,958
Gain (loss) on sale of assets	6,520	6,522
Interest and other income	1,037	1,379
	231,815	317,726
Cost and Expenses:		
Cost of sales:		
Motor fuels - retail	178,266	231,332
Motor fuels - wholesale	2,895	2,895
Convenience store merchandise	15,780	34,013
Operating expenses	22,760	35,894
Selling, general and administrative	9,171	10,804
Depreciation and amortization	5,652	6,088
Interest expense	5,198	4,946
Provisions for asset impairments, environmental and restructuring costs	11,627	11,627
	251,349	337,599
Loss Before Income Taxes	(19,534)	(19,873)
Income tax expense (credit)	(49)	(590)
Net Loss	$(19,485)	$(19,283)
Loss Attributable to Common Stock:		
Net loss	$(19,485)	$(19,283)
Preferred stock dividends	(200)	(200)
Loss Attributable to Common Stock	$(19,685)	$(19,483)
Loss per Common Share	$(3.34)	$(2.60)
Weighted Average Shares Outstanding	5,885,315	7,485,315

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

(In thousands except store counts, per gallon margins and percentages)

The following is Management's discussion and analysis of certain significant factors which have affected the Company's earnings and balance sheet during the periods included in the accompanying unaudited consolidated financial statements. Operating data is presented below:

	Three Months Ended March 31,	
	1992	1991
MOTOR FUELS - RETAIL		
Average number of open and operating locations (1)	541	604
Gallons sold	48,718	44,530
Gallons sold per location per month	30	25
Revenues	$46,908	$49,711
Gross profit (2)	4,931	5,029
Gross profit per gallon	0.1012	0.1129
Gross profit per location per month	3.0	2.8
CONVENIENCE STORE MERCHANDISE (3)		
Average number of open and operating locations	91	56
Merchandise sales	$7,521	$5,253
Merchandise sales per location per month	28	31
Gross profit	2,486	1,425
Gross profit percentage	33.05%	27.13%
Gross profit per location per month	9.1	8.5
MOTOR FUELS - WHOLESALE (4)		
Gallons sold	-	2,404
Revenues	-	$1,732
Gross profit	-	241
Gross profit per gallon	-	0.1002

(1) Represents retail outlets and company-owned convenience stores that retail motor fuels.

(2) Gross profit is shown before deducting compensation paid to operators of locations not operated by the Company of $1,394 and $1,689 for the three months ended March 31, 1992 and 1991, respectively.

(3) Represents revenues from merchandise related sales at company-owned locations.

(4) Represents operations discontinued in September, 1991.

Overview

The Company reported a net loss of $2,661,000 and net income of $498,000 for the three months ended March 31, 1992 and 1991, respectively. The first quarter of 1992 included $453,000 of non-recurring expenses related primarily to the planned closing of the Company's Kingsville, TX office; 1991's first quarter included a gain of $5,000,000 related to the sale of the Company's Hawaiian retail gasoline marketing subsidiary, partially offset by $584,000 of non-recurring expenses related primarily to bad debts. Without these one-time adjustments, the Company would have reported net losses of $2,208,000 and $3,918,000 for the three months ended March 31, 1992 and 1991, respectively. Operating results in 1992 include the Taylor Companies since March 1, 1992.

Operating Gross Profit

Retail motor fuel volumes were up during the first quarter of 1992 as compared to 1991 while revenues and cost of sales declined. The increase in volume of approximately 4,188,000 gallons or 9% was due to the addition of the Taylor Companies (9,171,000 gallons) as of March 1, 1992, partially offset by reductions caused largely by the decline in the number of open and operating locations. Despite the increase in volumes, motor fuels retail revenues declined 6% due to reduced selling prices at the pump. Gross profit declined in 1992 from the higher levels experienced in the first quarter of 1991 when the Middle East crisis drew to a close.

Convenience store merchandise sales increased 53% for the three months ended March 31, 1992 as compared to the same 1991 period due to the addition of the Taylor Companies. The gross profit margin of 33.05% for the three months ended March 31, 1992 represented a sharp increase over the 27.13% experienced during the corresponding 1991 period as the Company's redefined pricing and rebate program began to show results.

Bulk motor fuels wholesaling was discontinued in September, 1991.

Other Income

Other income declined 12% due primarily to reduced interest income.

Expenses

Operating expenses dropped 1% in the first quarter of 1992 compared to the 1991 period as increases in 1992 from the addition of the Taylor Companies were more than offset by reductions caused by the decline in the number of open and operating locations and by non-recurring bad debt charges recognized in the first quarter of 1991.

Selling, General and Administrative expenses for the first quarter of 1992 were up 9% as compared to the first quarter of 1991 primarily due to $453,000 of charges recognized in the first quarter of 1992 to cover the planned closure of the company's Kingsville, TX administrative office. Without these non-recurring charges, Selling, General and Administrative expenses would have declined by 8%.

Depreciation and amortization expense decreased 5% during the quarter ended March 31, 1992 as compared to the same 1991 period due to the Company's program of closing marginal locations.

Interest expense decreased 60% in the first quarter of 1992 as compared to the same 1991 period due to the conversion of long-term debt to equity upon completion of the rights offering, lower interest rates and the paydown of bank debt from the proceeds from asset sales.

Liquidity and Capital Resources

The following table sets forth key balance sheet amounts and corresponding ratios for periods included in the accompanying consolidated financial statements:

	March 31, 1992	December 31, 1991
	(Dollars In Thousands)	
Current assets	$24,190	$20,697
Current liabilities	20,126	15,098
Current ratio	1.20:1	1.37:1
Long-term debt (including related parties, capital lease obligations and other)	$35,836	$33,130
Stockholders' equity	28,934	26,055
Debt to equity ratio	1.24:1	1.27:1
Common shares outstanding	9,609,234	2,245,411

Liquidity

During the first quarter of 1992 the Company received proceeds from the following: sale of fixed assets of $323,000; proceeds from the sale of Harken common stock owned by the Company of $3,945,000; issuance of preferred stock for $2,500,000; and cash received in connection with short-term notes issued to two major stockholders for $1,000,000. Major expenditures included: $458,000 of capital and environmental remediation expenditures; $579,000 in net cash payments for the Taylor acquisition; and $3,272,000 of debt reduction.

The Company's net working capital decreased $1,535,000 or 27% in the first quarter of 1992 due to the sale of the Harken common stock and application of the resulting proceeds to reduce long-term debt, partially offset by an increase in short-term investments due to conversion of the Revolver to a term note and the extension of certain bank principal requirements. (See Note 3 - Long-Term Debt and Credit Arrangements in Notes to Consolidated Financial Statements.)

The Company has taken steps to improve its financial condition and strengthen its capitalization. As of March 31, 1992, the Company had sold assets sufficient to pay off Term Loan A and to prepay principal and interest on Term Loan B through at least September 30, 1992. (For a more detailed discussion, see Note 3 - Long-Term Debt and Credit Arrangements in the Notes to Consolidated Financial Statements.) The Company intends to pursue its business strategy by reducing bank debt further. Accordingly, the Company is continuing to liquidate non-strategic assets and is also offering for sale certain retail marketing properties which it believes provide no significant future growth potential, or which do not fit into the Company's overall strategic plan of marketing in non-urban areas. In this regard, the Company is involved in ongoing discussions with prospective third-party purchasers of such assets.

The Company has also initiated various measures to reduce overhead expenses and enhance cash flow. Office locations in Riverside, CA, Alexandria, LA and Kingsville, TX have been or are being consolidated, organizational and support staff levels have been streamlined, systems have been modernized to enhance efficiency, and cost reduction programs related to company-wide administrative expenses have been implemented. Although there are certain unavoidable short-term expenses associated with these actions, such as office shut down costs and severance costs, these programs will continue with the intention of producing additional future savings.

Because approximately 85% of the Company's revenues are derived from motor fuel sales and because the Company acquires much of its product on a spot basis, gross margins are subject to sudden changes whenever a disproportionate movement between purchase costs and retail selling prices occurs. In early 1991, the gasoline retail marketing industry experienced large and sudden swings in both product costs and competitive selling prices. Frequently these movements were not in line with each other, which led to unusually wide, or more commonly, narrow margins. In addition, attempts by the major oil companies to gain market share have placed added pressure on the margins and volumes of independent marketers. The economic recession has further hurt consumption. Beginning in the late spring of 1991 and continuing through the 1991-92 winter months, market conditions generally reflected a more traditional supply and demand relationship. However, the market environment of the past several months has been one of rising product costs without corresponding increases in selling prices, leading to considerable downward pressure on margins. This condition exists today, and without a return to stability in the marketplace, the Company may temporarily experience operating results that are unprofitable before considering depreciation and debt service.

During 1991, the Company experienced periods when its cash flow from operations was insufficient to meet its current obligations, including scheduled interest payments under the Loan Agreement. As discussed more fully in Note 3 - Long-Term Debt and Credit Arrangements in Notes to Consolidated Financial Statements, the Loan Agreement was amended in June, 1991 to allow the Company to apply the proceeds from the sale of assets to required interest and principal payments. As mentioned above, at March 31, 1992, the Company had sufficient funds in a reserve account at the bank to prepay principal and estimated interest payments on Term Loan B through at least September 30, 1992. Interest on the $16,000,000 Term Loan has not been prepaid. With the additional cash from operations anticipated from the Taylor Petroleum acquisition and the additional drawdowns available on the $16,000,000 Term Loan, the Company does not currently project cash shortfalls, but there can be no assurance that unanticipated events, or a prolonged motor fuel margin squeeze, will not occur and thereby cause such shortfalls to exist.

Capital Resources

In late spring, 1991, the Company developed a new strategic business plan that is designed to refocus the Company's capital and human resources away from motor fuels distribution in the many forms in which it was previously conducted and towards becoming a leader in the convenience store industry, predominantly in non-urban areas. In this regard, on March 25, 1992, the Company privately placed $2,500,000 of Series B Preferred Stock to two major stockholders and used the proceeds, and available working capital, to acquire Taylor Petroleum, an operator of 113 convenience stores. (See Note 8 - Acquisition of Taylor Petroleum in Notes to Consolidated Financial Statements.)

The Company's ability to expand further is dependent upon several factors including adequacy of acquisition opportunities and sufficient capital resources. The Company believes that there exists and will continue to exist ample acquisition candidates as the major oil companies continue their exit of the non-urban markets, as the convenience store industry continues to contract due to competitive pressures and the financial difficulties experienced by some of its members, and as small independent operators have difficulty meeting growing environmental requirements. Due to insufficient available capital and currently inadequate cash flow from operations, it will be necessary for the Company to fund identified acquisitions with new capital. Accordingly, the Company plans to be involved in equity-raising efforts in 1992.

The Environmental Protection Agency requires that facility owners test underground tanks for leaks and repair or replace leaking tanks with new or upgraded corrosion protected tanks. The Company currently estimates that complying with these regulations will cost an additional $12,417,000, generally through 1998. This estimate is based upon assumptions as to the number of tanks to be replaced and certain other factors. The assumptions on which the cost estimates are based may not materialize, and unanticipated events and circumstances may occur. As a result, the actual cost of complying with these requirements may be substantially lower or higher than the estimated costs. The Company anticipates that required expenditures relating to compliance with these regulations will be funded from cash flow from operations.

PART II - OTHER INFORMATION

E-Z SERVE CORPORATION
NOTES CONCERNING OTHER INFORMATION AND EXHIBITS

Item 1 - Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits incident to its businesses, including environmental matters which involve a governmental authority. In management's opinion, the adverse determination against the Company or any of its subsidiaries of these suits would not have a material adverse effect on the Company and its subsidiaries, taken as a whole. In the case of proceedings involving governmental authorities, management does not believe that any imposition of monetary sanctions would exceed $100,000.

In connection with the acquisition of the stock of the Taylor Companies, the Company has effectively become responsible for certain specific claims that existed prior to the acquisition. The Company has been indemnified by the selling shareholders with regard to these claims, as well as any other claims that may arise following the acquisition that are related to pre-closing events. The incidents for which the Company has received indemnity include the fatalities of one of Taylor's convenience store employees and one of the convenience store's customers, which were both allegedly caused in the course of a robbery. The Company is unable to determine whether any claims will be made, and, if made, whether the outcome will be favorable or unfavorable.

Item 2 - Changes in Securities

The Company issued 25,000 shares of Series B Preferred Stock on March 25, 1992. Such preferred stock has a liquidation and dividend preference over all shares of the Company's common stock.

Item 3 - Defaults upon Senior Securities

As of March 31, 1992 the company was not in compliance with a provision of its 12% Subordinated Debenture held by Harken. The non-compliance related to the required amount of asset sales for the quarter ended March 31, 1992. The Company has received a waiver from Harken regarding this matter.

Item 4 - Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the quarter ended March 31, 1992.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) A Report on Form 8-K dated March 25, 1992 has been filed during the quarter for which this report is filed. The terms of the acquisition of the Taylor Companies and the related transaction concerning leases were reported.

E-Z SERVE CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

E-Z SERVE CORPORATION
(Registrant)

Date: May 18, 1992

John T. Miller, Senior Vice President
(Chief Financial Officer)